Bovis Corporation Limited
1977 Annual Report

The 36" dredge "Canadian", one of the world's largest cutter suction dredges, is shown in the background on the St. John River, where over 2,000,000 cubic metres of gravel were hydraulically pumped from the river bed into container dykes along both sides of the river, as can be clearly observed in the foreground.

The project for dredging and land reclamation in downtown Fredericton, New Brunswick was undertaken for the New Brunswick Department of Transportation.

Another view of the "Canadian" showing pontoon and pipeline through which the dredged material is pumped to shore.

Bovis Corporation Limited

Bovis Corporation Limited

Interim Report to Shareholders

Six Months Ended June 30 th, 1977

Bovis Corporation Limited
and
McNamara Corporation Limited
255 Consumers Road
Willowdale, Ontario
Telephone – 493-2770

Bovis Corporation Limited

President's Report

Earnings of $4,024,000 in the Second Quarter of 1977 have resulted in a profit for the six months ended June 30th of $3,037,000. This compares with a loss of $3,514,000 reported for the same period last year. The 1977 results include the Company's recovery of a claim against the State of California in the gross amount of $10,700,000. Maximum provision for tax on this recovery has been included in the six months' results since the exact amount of the ultimate liability cannot be determined at this time.

The six months' results also reflect provisions of $1,956,000 for losses incurred in 1977 and anticipated future losses from the Company's discontinued operations, particularly on real estate assets in the Province of Quebec. Every effort is, of course, being made to reduce this loss through acceleration of disposal programs in order to eliminate the heavy carrying costs on the assets involved.

It is important to note that the Company's excessive inventories of equipment have been reduced by almost $3,000,000 in the six month period and sales of virtually all commercial property holdings in Toronto have now been closed. With a debt to equity ratio of approximately 2:1, the Company is in the strongest financial position that has existed for some years and further improvements to this ratio are expected by year-end.

On behalf of the Board,

President & Chief Executive Officer

Unaudited Consolidated Statement of Earnings

For the six months ended June 30th, 1977

	1977	1976
Gross Revenue from Operations	$26,893,000	$33,863,000
Recovery of California Claim	10,700,000	—
Total Revenues	$37,593,000	$33,863,000
Earnings (Loss) from Operations before the undernoted	$ 1,418,000	$(2,020,000)
Recovery of California Claim	10,700,000	—
Equity in Net Earnings of Consolidated Building Corporation	303,000	500,000
	12,421,000	(1,520,000)
Depreciation	(902,000)	(956,000)
Interest	(1,226,000)	(728,000)
Loss from Discontinued Operations	(1,956,000)	(310,000)
Earnings (Loss) before Provision for Income Taxes	8,337,000	(3,514,000)
Provision for Income Taxes	5,300,000	—
Net Earnings (Loss)	$ 3,037,000	$(3,514,000)
Net Earnings (Loss) per share	21.5¢	(24.9¢)

Unaudited Consolidated Statement of Changes in Financial Position

For the six months ended June 30th, 1977

	1977	1976
Source of Funds:		
Net Earnings (Loss)	$ 3,037,000	$(3,514,000)
Depreciation	902,000	926,000
Sale of Fixed Assets	511,000	1,004,000
Dividends from Consolidated Building Corporation	143,000	136,000
Increase in Provision for Income Taxes	4,700,000	—
Reduction in Accounts Receivable and Inventories of Equipment and Materials	2,913,000	2,451,000
	$12,206,000	$ 1,003,000
Use of Funds:		
Purchase of Plant and Equipment	1,809,000	507,000
Reduction (increase) in Bank Borrowings	5,019,000	(8,999,000)
Reduction in other borrowings and Accounts Payable	5,378,000	9,495,000
	$12,206,000	$ 1,003,000

Bovis Corporation Limited
1977 Annual Report

BOARD OF DIRECTORS

R.L. Beaulieu, Q.C.

O. Brooks (London, England)

R. MacTavish

R.F. Martin

Wm. V. Moore

M. Paris (London, England)

E.J. Spence

OFFICERS OF THE COMPANY

R. MacTAVISH
President & Chief Executive Officer

W.B. DILLY
Vice-President

D.H. FREDERICK
Vice-President

C.L. LISTER
Vice-President, Finance, & Secretary

R.F. MARTIN
Vice-President

G.B. MORRIS
Vice-President

J.W. WHITE
Vice-President

H.R. REID
Controller

CORPORATE OFFICES

255 Consumers Road, Willowdale, Ontario Telephone: (416) 493-2770
Telex: 06966856

Auditors:
Touche Ross & Co.

Bankers:
The Royal Bank of Canada

Transfer Agents and Registrar:
Crown Trust Company,
302 Bay Street, Toronto, Ontario

Transfer Agent (U.S.A.):
The Bank of New York,
90 Washington Street,
New York City, New York

Bonding Company:
Travelers Indemnity Company
of Canada

Contents

To The Shareholders

For the year ended December 31, 1977, Bovis Corporation Limited had net earnings of $1,153,000 compared with a loss of ($14,970,000) in 1976.

During the year ended December 31, 1977, management continued to concentrate its efforts on restoring the financial position and profit potential of your Company. Whereas the net profit of $1,153,000 is not an adequate return to the shareholders, other achievements in difficult markets give cause for some optimism. Disposition programmes which commenced in 1976 and which were primarily aimed at reducing the high cost debt associated with undeveloped commercial properties and excess inventories, continued through the year. Ongoing operations have likewise been subjected to continuous intensive evaluation and control. The positive results of these efforts are perhaps best reflected in the following comparative summary of financial highlights.

	1977	1976
Revenues, Earnings		
Gross revenues from ongoing operations	$56,753,000	$55,622,000
Net earnings (loss)		
Ongoing operations	71,000	(5,307,000)
Claim recovery — net of tax	5,694,000	—
Discontinued operations	(4,612,000)	(9,663,000)
Net earnings (loss)	1,153,000	(14,970,000)
Assets, Liabilities, Working Capital		
Total Assets	68,887,000	90,599,000
Assets held in disposal programme	19,565,000	28,994,000
Working capital	7,288,000	295,000
Bank indebtedness	8,384,000	22,684,000
Other secured debt	21,774,000	31,464,000
Total interest bearing debt	30,158,000	54,148,000
Shareholders Equity		
Total	$19,788,000	$18,635,000
Per Share	$1.40	$1.32

Although earnings from ongoing operations were a disappointing $71,000 in 1977, the significant feature is the turn-around from the loss of ($5,307,000) suffered by the same operations in 1976. Continued improvement is expected in 1978. More detailed comment on the individual operations is contained later in this report.

The long outstanding claim arising out of the construction of an underground powerhouse at Oroville Dam in California by a Joint Venture sponsored by a wholly-owned subsidiary of the Company, was resolved in 1977. The Company's gross share of this award was $10,994,000. The Company has made full provision for taxes of $5,300,000 on this award in the financial statements but, on the advice of counsel, intends to contest the amount payable.

Assets held for disposal were reduced during the year by $9,429,000. The principal single asset remaining in this category is a 12-storey office building in Edmonton which was completed in 1977 and is now 92% leased and producing an adequate return.

Our objective has been to complete the disposition programmes by the end of 1978 and management believes this target is still attainable with the possible exception of some real estate assets in the Province of Quebec. A large proportion of our 1977 loss from discontinued operations arose from a reassessment of the Quebec assets which now have a written-down value of about $6,000,000. The Quebec real estate market continues to be sluggish and although substantial reduction in the Company's investment there is anticipated, it is probably not realistic to expect full realization in 1978.

In addition to dispositions under the programmes commenced in 1976, the Company on September 16th, 1977, accepted an offer from Consolidated Building Corporation Limited for the purchase of 1,908,400 shares of Consolidated Building, then owned by the Company, plus an additional 290,000 shares to be purchased by the Company under an agreement entered into in 1973, in each case at a price of $4.00 per share. The transaction was closed on January 6, 1978 and has been reflected in the Company's consolidated financial statements as at December 31, 1977 including application of the net cash proceeds of $7,746,000 as a reduction of current bank indebtedness. Your Company's share of Consolidated Building's earnings in 1977 was $285,000. The comparative figure in 1976 was $798,000.

Although the Company's share of Consolidated Building's aggregate earnings since the date of the initial acquisition in 1973 has approximately offset the costs of carrying the investment, the cash flow received by the Company from the dividends disbursed by Consolidated Building has been substantially less than the carrying costs of approximately $600,000 per year. The decision to sell was dictated in part by the relatively low cash return from this investment.

The litigation described in Note 18 to the balance sheet, in connection with charges laid against a subsidiary of the Company to defraud the Governments of Canada and Ontario, is presently before the courts. The Company is taking every measure to assure that its subsidiary is adequately defended.

The significant reductions in bank indebtedness and other interest-bearing debt and the substantial improvement in working capital have already restored much of the confidence of the financial community in the Company. Management is dedicated to the preservation and strengthening of the Company in this essential area.

REVIEW OF OPERATIONS

Newfoundland Construction

The Construction Division of McNamara Corporation of Newfoundland Limited ended the year with a satisfactory profit on a volume of $12,000,000. The major projects carried out in 1977 were the completion of the Bay D'Espoir Hydro Development for the Newfoundland and Labrador Power Corporation; the construction of 45 miles of highway on the North West Coast of the Province and the start of new docking facilities at Port aux Basques, which is scheduled for completion in June, 1978.

During the year the continuing programme of updating the equipment fleet involved an expenditure of $2,300,000 including a new 4,000-ton per day asphalt plant.

Despite Government restraints on construction spending, we are going into 1978 with a substantial carry-over volume of work consisting mainly of the $5,000,000 Waterford Valley Sewer in St. John's and the completion of the new $3,000,000 docking facilities for Port aux Basques.

Marine Operation

After a disappointing year in 1976, the Marine Division this year made a satisfactory profit on a volume from marine dredging and construction of $7,600,000, an increase in volume of 30% over last year. The

major project completed during the year was a $3,000,000 land reclamation project to construct approach ways for the new Fredericton Bridge for the New Brunswick Department of Highways. The job, which commenced in early July, consisted of dredging approximately 1,500,000 yards and finished ahead of schedule. Although the marine operation does not have a large backlog of work carrying over into 1978, management is confident that the division will compete successfully for jobs tendered during 1978 and maintain current levels of profitability.

McNamara Industries

This division profitably completed approximately $5,400,000 of steel fabrication and erection work in 1977, an increase of about 10% over the previous year. The major projects carried out in 1977 were the installation of two large oil storage tanks at the Holyrood Generating Station, Phase II, and the extension to the Avalon Mall in St. John's.

The division is undertaking fairly substantial capital expenditures in 1978 to upgrade its production facilities. The plans include a modern Beam Line installation, which, together with other related works will improve the fabricating facilities and material flow through the plant and will help the division to maintain its competitive position in the market. The division has a higher carry-over volume of work for 1978 than in previous years.

Concrete Products

This division had a successful year in 1977 with a volume of $6,000,000, up slightly from 1976. Production of ready-mix concrete increased approximately 12% from 1976. The outlook for 1978 is not quantifiable at this time, but as the division is the major ready-mix concrete and aggregate supplier in the St. John's area, and has modern and efficient facilities, obtaining its share of the market appears reasonably assured.

Residential Property

This division, which develops raw land holdings to the serviced land stage, had another satisfactory year, producing a good profit on a volume of $5,400,000, up from $4,700,000 in the previous year. The major sales in 1977 were in the Cambridge and Peterborough areas in Southern Ontario. Profits may be expected to decline in 1978 in recognition of the general slowdown in residential development in Ontario, which has led to a decision to reduce inventories held for development purposes.

General Supply/Equipment Federal

This division continued to experience operating difficulties in 1977 and recorded an unprofitable, and unsatisfactory, year on revenues of $17,300,000. Sales volumes did not materialise in a soft market and the division was burdened with equipment and parts inventory which were excessive in relation to the achieved sales. However, inventories, including inventories of discontinued lines, have reduced to $14,100,000 at December 31, 1977, down from $17,000,000 at December 31, 1976 and $25,000,000 at December 31, 1975. While the depressed market that has prevailed for the past two years is still with us and will probably continue during 1978, the ongoing programme of inventory reductions, coupled with improved manpower utilization and other reductions in overheads, should produce a better result for this operation in 1978.

Control & Metering

This division's volume, which is derived from the design, supply and installation of water treatment monitoring devices, decreased from $2,900,000 in 1976 to approximately $2,700,000 in 1977. Difficulties with late deliveries from suppliers on whom this division is heavily reliant, have been substantially resolved and a considerable volume of work in hand makes the upcoming year look promising.

CONCLUSION

In summary, the major achievements of 1977 were the debt reduction, the claim recovery, and the general improvement in construction related activities. On the other hand, continuing problems with the equipment operations, the unstable situation in the Province of Quebec and the non-recurring loss on the sale of the Company's interest in Consolidated Building, all contributed to a less than satisfactory profit achievement in the year. Management believes that better results can be anticipated from the equipment operations in 1978 and that the disposition of the remaining real estate in Quebec will ultimately be achieved without further material loss. Continued strengthening of construction related activities is also anticipated and, in this regard, as recently announced, Mr. G. B. Morris has been employed by the Company to head up a new division which will provide project management and engineering services utilizing the considerable pool of talent available within the organization. Mr. Morris' own expertise is well recognized in the industry and the Company is most fortunate to have obtained his services.

During the year we welcomed to the Board of Directors Mr. O. Brooks, the Chief Financial Officer and a Director of our major shareholder, The Peninsular & Oriental Steam Navigation Company in the United Kingdom. Mr. H. G. Emerson resigned from the Board during the year but continues to act as the Company's legal counsel.

On behalf of all Directors and Management, I would like to extend our appreciation to all of our faithful employees for their conscientious efforts in the past year.

Respectfully yours,

R. MacTavish
President and Chief Executive Officer

Bovis Corporation Limited

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 1977
(with comparative figures for 1976)

ASSETS		1977	1976
CURRENT			
Accounts and notes receivable, including $989,000 retained by customers in accordance with contract provisions (1976—$1,727,000)		$10,402,000	$10,564,000
Inventories		15,232,000	15,609,000
Construction contracts in progress		242,000	167,000
Investment in construction joint ventures		53,000	101,000
Prepaid expenses		151,000	259,000
Assets held for disposal, at estimated realizable value — (Note 2)		19,565,000	28,994,000
Property for sale or under development		1,649,000	3,680,000
Current portion of mortgages receivable		548,000	2,266,000
		47,842,000	61,640,000
Mortgages receivable, net of current portion — (Note 4)		4,706,000	2,517,000
Land held for future development		3,743,000	4,407,000
Sundry Assets		524,000	695,000
Loans re Share Participation Plan — (Note 5)		428,000	457,000
Investment in Consolidated Building Corporation Limited—(Note 3 and Note 6)		—	8,977,000
Property, Plant & Equipment	$30,725,000		
Less: accumulated depreciation	19,081,000	11,644,000	11,906,000
		$68,887,000	$90,599,000

On behalf of the Board:

.... Director

.... Director

See accompanying notes to

AUDITORS' REPORT

The Shareholders,
Bovis Corporation Limited.

We have examined the consolidated statement of financial position of Bovis Corporation Limited as at December 31, 1977 and the consolidated statements of earnings and deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

LIABILITIES	1977	1976
CURRENT		
Bank indebtedness (Note 3 and 6)	$ 5,065,000	$17,291,000
Accounts, notes payable and accrued charges (Note 7)	16,995,000	23,084,000
Indebtedness on assets held for disposal, including bank indebtedness of $819,000 (1976 — $1,893,000) (Note 2)	12,366,000	18,734,000
Mortgages on property for sale or under development (Note 8)	536,000	1,236,000
Income Taxes Payable (Note 16)	4,652,000	
Current portion of term bank loans	1,000,000	[illegible]
	40,614,000	61,345,000
Deferred income (Note 9)	3,036,000	4,090,000
Term bank loans (Note 6)	1,500,000	2,500,000
Other mortgages and obligations (Note 10)	2,278,000	1,587,000
Mortgages on land held for future development (Note 11)	1,671,000	2,442,000
SHAREHOLDERS' EQUITY		
Capital stock (Note 5)		
Authorized 15,000,000 shares without par value		
Issued 14,102,516 shares (1976 — 14,102,516)	20,614,000	20,614,000
Contributed surplus	8,179,000	[illegible]
	28,793,000	28,793,000
Deficit	8,929,000	[illegible]
	19,864,000	18,711,000
Less 85,966 shares acquired in 1976 at cost	76,000	[illegible]
	19,788,000	18,635,000
	$68,887,000	$90,599,000

dated financial statements.

In our opinion, subject to the resolution of the matters described in Note 18, these consolidated financial statements present fairly the financial position of Bovis Corporation Limited as at December 31, 1977 and the results of its operations and changes in the financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Ontario,
February 21, 1978

Touche Ross & Co
Chartered Accountants.

CONSOLIDATED STATEMENT OF EARNINGS AND DEFICIT

FOR THE YEAR ENDED DECEMBER 31, 1977

(with comparative figures for 1976)

		1977	1976
Gross Revenue (Note 14)		$56,753,000	[illegible]
Costs and Expenses			
Cost of sales and other expenses		52,653,000	56,692,000
Depreciation		2,430,000	2,430,000
Interest		1,599,000	1,807,000
		56,682,000	60,929,000
Earnings (Loss) from Ongoing Operations before claim recovery and provision for income taxes		71,000	(5,307,000)
Recovery of California Claim	$10,994,000		
Less Provision for Income Taxes (Note 16)	5,300,000	5,694,000	—
Earnings (Loss) from Ongoing Operations		5,765,000	(5,307,000)
Loss from Discontinued Operations (Note 2)		(4,612,000)	(9,663,000)
Net Earnings (Loss) for the year		1,153,000	(14,970,000)
Retained Earnings (Deficit) at beginning of year		(10,082,000)	4,888,000
Deficit at End of Year		($8,929,000)	($10,082,000)
Earnings (Loss) Per Share		$0.08	($1.07)

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEAR ENDED DECEMBER 31, 1977
(with comparative figures for 1976)

	1977	1976
SOURCE OF FUNDS:		
From Operations		
Ongoing:		
Earnings (Loss)	$ 5,765,000	($ 5,307,000)
Depreciation	2,430,000	2,430,000
	8,195,000	(2,877,000)
Discontinued:		
(Loss)	(4,612,000)	[illegible]
Depreciation	7,000	54,000
	(4,605,000)	(9,609,000)
Reduction in net assets of discontinued operations, including investment in Consolidated Building Corporation	10,964,000	6,937,000
	6,359,000	(2,672,000)
	14,554,000	(5,549,000)
Reduction in net assets of ongoing operations	1,921,000	2,299,000
	16,475,000	(3,250,000)
USE OF FUNDS:		
Purchase of property, plant and equipment, net	2,175,000	1,769,000
Purchase of shares	—	76,000
	2,175,000	1,845,000
Decrease (Increase) in bank borrowings	14,300,000	(5,095,000)
Bank indebtedness, including term loans at beginning of year	(22,684,000)	(17,589,000)
Bank indebtedness, including term loans at end of year	($ 8,384,000)	($22,684,000)

See accompanying notes to consolidated financial statements.

Bovis Corporation Limited and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1977

1. **Summary of significant accounting policies**

a) The consolidated financial statements include the accounts of the Company and its subsidiary companies.

b) Recognition of Income

i) Income from construction projects and construction joint ventures is recognized on the percentage of completion method.

ii) It is the policy of the Company not to reflect construction or other claims in the financial statements until the compensation has been awarded, but to expense the costs relating to such claims as incurred.

iii) The Company's accounting policies relating to its property development activities have been established in accordance with the recommendations of the Canadian Institute of Public Real Estate Companies.

The Company follows the policy of capitalizing as part of the cost of property for sale or under development and land held for future development:

— direct carrying costs such as mortgage interest, realty taxes and other costs which pertain to such properties; and

— interest on general borrowings considered applicable.

The total of such costs included in the cost of properties held for sale or under development or land held for future development as at December 31, 1977, amounted to $1,390,000 (1976 — $1,581,000).

iv) Income from property transactions is recognized as follows:

Land Sales — when all material conditions have been fulfilled, at least 15% of the purchase price has been received and interest is accruing at a reasonable rate on the balance due under the sale.

c) Inventories and construction contracts in progress are valued at the lower of cost and net realizable value.

d) Investment in construction joint ventures is adjusted by the Company's share of earnings or losses to date.

e) Property, plant and equipment is stated at cost and depreciated over the estimated useful life of the related assets on the diminishing balance method for substantially all assets and the straight-line method for marine equipment. Plant and equipment under lease, where it is the intention to exercise the related options to purchase, are capitalized and depreciated. Expenditures for maintenance and repairs which do not materially extend the life of assets are charged to operations.

2. **Discontinued Operations**

a) During 1977, the Company continued upon the disposition programme commenced in 1976. A major addition to the 1976 programme in 1977 was the decision to dispose of the Company's investment in approximately 30% of the common shares of Consolidated Building Corporation (see also Note 3).

The earnings or losses from operations in the discontinued programme and the costs incurred and expected to be incurred in the future on an orderly disposition, have been reflected on the consolidated statement of earnings under the caption "loss from discontinued operations".

In the following summary of the discontinued operations, the 1976 consolidated financial statements have been restated to conform with the current year's presentation.

	1977	1976
Net sales	$11,987,000	$31,542,000
Costs and expenses	15,613,000	42,003,000
	$ 3,626,000	$10,461,000
Loss on sale of investment in Consolidated Building Corporation	1,271,000	—
Equity in Earnings of Consolidated Building Corporation	(285,000)	(798,000)
Net Loss	$ 4,612,000	$ 9,663,000

The above costs and expenses include depreciation and interest of $7,000 and $1,225,000 respectively (1976 — $54,000 and $2,255,000 respectively).

b) The remaining assets of the discontinued businesses are valued at estimated net realizable values and are grouped on the consolidated financial statements under the caption "assets held for disposal" and include:

	1977	1976
Receivable on Agreement for sale of Ontario Housing Division	$ 812,000	$ 2,750,000
Inventories of equipment	1,431,000	3,074,000
Commercial property and housing assets	16,028,000	20,641,000
Mortgage loans	1,294,000	2,529,000
	$19,565,000	$28,994,000

The Company has extended the maturity date on the receivable from the purchaser of the Ontario Housing Division until March, 1979. Under the terms of the extension agreement, the balance is payable in minimum monthly instalments or as the assets originally acquired by the purchaser are sold to third parties. Title to these assets remains with the Company until full payment has been received.

c) The indebtedness on assets held for disposal includes:

	1977	1976
Mortgages and mortgage advances on commercial property and housing assets. (The average rate of interest on these mortgages and advances is 11.67%)	$10,944,000	$14,514,000
Chattel mortgages on discontinued lines of equipment	603,000	2,327,000
Bank letter of credit on property asset	415,000	651,000
Bank loan secured by mortgage loan portfolio of a subsidiary company	404,000	1,242,000
	$12,366,000	$18,734,000

3. Consolidated Building Corporation Limited

On September 16, 1977, the Company accepted an offer to purchase from Consolidated Building Corporation Limited, for 1,908,400 shares of Consolidated Building, then owned by the Company, plus an additional 290,000 shares to be purchased by the Company under an agreement entered into in 1973, in each case at a price of $4.00 per share. The purchase by Consolidated Building was ratified by its shareholders on December 2, 1977 and by the Supreme Court of Ontario on December 22, 1977. The transactions, which were closed on January 6, 1978, have been reflected in the accompanying consolidated financial statements as at December 31, 1977 and net cash proceeds of $7,746,000 received on closing have been applied as a reduction of the current bank indebtedness as at December 31.

4. Mortgages receivable

	1977	1976
Mortgages receivable	$ 5,254,000	$ 4,783,000
Average rate of interest	9.72%	9.70%

5. Share participation plan

The Company has two share participation plans under which 720,000 shares were reserved. The original plan became effective in 1971 and the second plan in 1975. The Company provides interest-free loans to officers and key employees to enable the purchase of shares.

Under the original plan, the loans may be repaid at any time and mature ten years from the purchase date. The shares purchased are held by a trustee and may be released to the employee at a rate of up to 20% per annum commencing one year after the purchase date, provided pro-rata payment on account of the loan is received.

Under the second plan, loans are repayable by monthly payroll deduction over a five year period or sooner, at the option of the employee. Shares purchased are held by a trustee and may be released to the employee in the equivalent percentage to the repayment of his loan.

Shares reserved, issued and released under these plans are as follows:

	Original Plan	Second Plan	Total
Reserved	520,000	200,000	720,000
Issued and held by trustee at January 1, 1977	410,790	93,900	504,690
Shares released during the year	—	12,000	12,000
Issued and held by trustee at December 31, 1977	410,790	81,900	492,690

Loans outstanding to officers and key employees at December 31, 1977 in connection with the purchase of shares were $428,000 (of which $139,000 were to officers who are also directors). The 492,690 shares held by the trustee include 254,684 shares held against the aforementioned loans. The remaining shares are held against unpaid loans made to former officers and key employees.

Employees who are terminated by the Company are indemnified against loss under both plans should the proceeds on the ultimate sale of the shares by the trustee be less than the employee's related outstanding loan. Existing officers and key employees are also indemnified against loss in certain circumstances under the original plan.

6. Bank indebtedness, including term loans

The bank indebtedness, including term loans, is secured by accounts receivable, specified land and premises and a first floating charge on the assets of the Company and operating subsidiaries. The term loan is repayable $1,000,000 in 1978 and the balance in 1979.

The Company has given covenants to its bankers that provide, among other things, for the maintenance of a minimum level of shareholders' equity and level of debt, as defined, to shareholders' equity. The Company is restricted, among other things, from paying dividends without their prior approval.

7. Accounts, notes payable and accrued charges

The accounts and notes payable include approximately $5,742,000 (1976 — $9,358,000) due to equipment suppliers and finance companies, which are secured by inventories of equipment.

8. Mortgages on property for sale or under development

	1977	1976
Mortgages on property for sale or under development	$ 536,000	$1,236,000

Mortgages on property for sale or under development will be discharged out of proceeds of sales which, it is anticipated, will be obtained prior to the maturity date of these liabilities. The average rate of interest on these mortgages is 9.25% (1976 — 9.55%).

9. Deferred income

The Company sold and leased back certain marine equipment in prior years. The excess of the proceeds of sales over net book value has been included in deferred income and is being taken into earnings on a straight-line basis over the terms of the eight-year leases. The Company has options to repurchase for $2,250,000 at the end of the lease period.

10. Other mortgages and obligations

This represents mortgages and capitalized lease obligations on plant and equipment. These balances bear interest at an average rate of 10.84% and are repayable as to principal approximately as follows:

1978	$ 1,070,000
1979	578,000
1980	377,000
1981	169,000
1982	84,000
	$ 2,278,000

11. Mortgages on land held for future development

The balances at December 31, 1977 bear interest at an average rate of 9.04% and are repayable as to principal approximately as follows:

1978	717,000
1979	270,000
1980	181,000
1981	22,000
1982 and thereafter	481,000
	$1,671,000

12. Remuneration of directors and senior officers

Remuneration, of directors and senior officers (as defined by the Business Corporations Act — Ontario) from the Company and its subsidiaries for the year totalled $615,000 (1976 — $877,000).

13. Pension Plan

Based upon actuarial valuation of the Company's pension plan as at December 31, 1976, the unfunded liability as at December 31, 1977 amounts to approximately $485,000. This unfunded liability will be paid and expensed in amounts of $77,000 per annum up to December 31, 1980 and approximately $49,000 thereafter.

14. Gross Revenue

The gross revenue by class of business is broken down as follows:

	1977	%	1976	%
Construction	$20,037,000	35.3	$24,093,000	43.3
Marine dredging	5,237,000	9.2	1,949,000	3.5
Sales of equipment	17,339,000	30.6	16,219,000	29.2
Sales of building materials	8,700,000	15.3	8,617,000	15.5
Property development	5,440,000	9.6	4,744,000	8.5
	$56,753,000	100.0	$55,622,000	100.0
Discontinued operations (Note 2(a))	$11,987,000		$31,542,000	

15. **Earnings (Loss) per share**

Earnings (loss) per share has been calculated on the basis of the weighted average number of shares outstanding during the periods.

16. **Income taxes**

At December 31, 1977, the Company and its subsidiaries, in aggregate for Canadian income purposes, had a net unrecorded deferred tax debit of approximately $10,000,000. The principal item contributing to this net unrecorded tax debit is the existence of losses for tax purposes from the current and prior years.

The ultimate reductions of income taxes which may result from the use of these losses will be included in income as extraordinary items when, and to the extent that, they are realized.

The provision for income taxes reflected in the consolidated statement of earnings relates to a potential liability which a subsidiary of the Company may have for United States and State of California income taxes on a claim recovered from the State of California by a joint venture sponsored by a subsidiary of the Company. The subsidiary intends to contest the amount of income taxes payable.

17. **Commitments and Contingencies**

a) The long-term lease commitments of the Company consist of the marine equipment leases (see Note 9) and various non-capitalized leases on other equipment and premises used by the operating divisions. The aggregate annual lease cost of these commitments is estimated to be approximately $2,815,000 (1976 — $2,686,000).

b) The Company is contingently liable under recourse provisions of conditional sales contracts. The amount of such contracts outstanding at December 31, 1977 was approximately $850,000 (1976 — $1,500,000).

c) The Company is contingently liable with respect to letters of guarantee in the amount of $35,000 (1976 — $1,312,000).

18. **Litigation**

In March 1975, a subsidiary of the Company was charged together with twelve other companies, with conspiring to defraud the Government of Canada, the Government of the Province of Ontario and the Toronto and Hamilton Harbour Commissions in connection with certain dredging contracts. The proceedings and related civil actions are currently in process and the ultimate liability, if any, of the subsidiary cannot now be determined.

19. **Anti-Inflation Legislation**

The Company and its subsidiaries are subject to the Federal Government's Anti-Inflation Legislation, which became effective October 14, 1975, which limits or requires justification for increases in profits, compensation and dividends.

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